EFFECTS OF UNIT TRUST PRODUCTS MIX ON TURNOVER OF ASSET MANAGEMENT COMPANIES IN KENYA

BY

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DECLARATION

Declaration by the Student

This research project report is my original work and has not been presented to any other examination body.

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DEDICATION

This research is dedicated to the entire Mwirigi family for standing by me throughout my academic life. God bless you so much.

ACKNOWLEDGEMENT

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ABBREVIATIONS

APT	Arbitrage Portfolio Theory
CAPM	Capital Asset Pricing Model
CMA	Capital Markets Authority
MPT	Modern Portfolio Theory
ROA	Return on Assets
ROE	Return on Equity
ROTC	Return on Total Capital

ABSTRACT

Unit trusts have gathered momentum in Kenya since introduction in the year 2001.Picking pace largely due to their abilities to pool funds from many retail investors and ability to diversify across asset classes that have got negative correlation hence capacity to diversify risk and maximize returns. For asset managers, over and above returns to the investors, the revenue generating capacity of their funds to the company as a stakeholder is also key. This income is in terms of asset management fees that in turn translate to overall financial performance of the company. Scanty research has been done locally to help managers choose the perfect asset mix that can enable them construct an efficient portfolio that maximizes returns at a given level of risk as suggested by the modern portfolio theory. This study therefore sought to investigate the relationship between unit trust products mix and turnover of asset management companies and by implication the financial performance of asset management companies. It applied a multiple linear regression model and studying 10 of the 21 registered mutual funds managers as at April 2017. From the regression analysis it was revealed that holding proportions of Equity funds, Money market funds, Balanced funds and bond funds constant revenues of asset managers would be at 7.306, a unit increase in equity funds would lead to an increase in revenues of asset managers by a factor of 1.86, a unit increase in money market would lead to an increase in revenue of asset managers by a factor of 0.861, a unit increase in balanced funds would lead to increase in revenue of asset managers by a factor of 0.672, further a unit increase in size of bond fund would lead to an increase in the revenues of asset managers by a factor of 0.369. This study proved an asset to policy making process for industry players and critical tool for portfolio construction.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

According to Harman (1987) unit trusts can be defined as an investment alternative that pools funds from many parties and channels it into various investment platforms with the intent of attaining low risk through lower average cost per member and diversification. These funds are committed in a portfolio of assets such as bonds, shares, money market instruments and other authorized securities to meet the objectives and needs of the investors or group of investors.

The Kenyan capital markets various unit trust products which have grown in terms of acceptance in the recent decades. Unit trusts were first introduced in Kenya in 2001 through the tutelage of the Capital Markets Authority (CMA). By the end of June 2011, the sum of unit trust providers had grown to 13 with the size of the industry growing to a tune of Kshs29 Billion.

The Kenyan Unit Trust industry has yet to be tapped to its full potential as compared to other peer nations such as South Africa which is 300 times bigger, Njeri (2012). However, a recent report by InfoHub Kenya (2017) indicates that by the end of 2016 the number of unit trust schemes registered under Capital Markets Authority had risen to 19.

1.1.1 Unit Trust Products Mix

The current unit trust products available in the Kenyan market are money market funds, balanced funds, equity funds, bond funds, Real Estate Investment Trusts, and Sharia Compliant funds among others. This study shall focus on the four commonly held unit trusts i.e. Money market funds, Equity funds, bond and balanced funds.

Equity funds are one of the most common unit trust products in the capital market. They consist of host companies (or equities) centred on certain criteria as outlined by the unit trusts key mandate. Money market funds are open-ended funds that capitalize in short-term instruments like commercial papers and treasury bills. Money market funds are a favourite for the risk averse investors seeking safe assets with relatively low risk yet providing a higher yield. For financial intermediaries, money market funds are a major source of liquidity.

Bond funds entail funds that primarily invest in bonds and other debt securities or instruments. They usually issue out periodic dividends that incorporate interest payments derived from the underlying securities as well as the periodic realized capital appreciation (Chandra, 2006). A balanced fund has a portfolio comprising of a mix of equities, fixed income securities and cash. These hybrid funds are founded on a relatively fixed mix of bonds and stocks that reflect either a higher, or moderate equity, component, or conservative, or higher fixed income, component orientation.

1.1.2 Financial Performance

Financial performance can be defined as a measure of how well a firm utilizes its assets from its core business and generates revenues. Subjective as it, it can be used to imply

a firm's general financial health over a particular time period, and can be used for cross-industry or cross-sector comparative analysis for similar firms (Fortin & Michelson, 2005). It can be defined as determining the outcomes of a company's policies and operations in monetarist terms. These outcomes are mirrored in the firm's return on investment, return on assets, value added, etc. (Were, 2012).

One of the metrics of measure include profitability rations that include; Return on Assets (ROA), Returns on total Capital employed (ROTC), Return on Equity (ROE),Return on common equity is thoroughly analysed through the Dupoint analysis (Francis & Kim, 2013). Profitability ratios offer information on how well the corporation makes net profits and operating profits from its sales (Fortin & Michelson, 2005). Different firms have different operational overheads, even at the bare minimum different remuneration and bonuses for analysts and portfolio managers. This study shall focus on the revenue generating capacity of the different unit trust funds and seek to ascertain what correlation exists between the changes in unit trust income and the unit trusts asset mix.

1.1.3 Unit Trusts Products and Financial Performance

For asset managers, over and above returns to the investors, the revenue generating capacity of their funds to the company as a stakeholder is also key. This income is in terms of asset management fees that in turn translate to overall financial performance of the company. According to Otieno (2013) Most asset management companies run a diversified portfolio of investment activities including discretional funds, alternative investments, real estate/property, fixed income securities and deposits among others.

Needless to say most of the investment companies in Kenya can relate to the fact that unit trusts formed their first baby steps at the start-up stage and that gave them an entry point leverage into the industry (Were, 2012). These mutual funds are now a common item in the investment firm's investment Menu and a key player in the financial performance of the companies. No clear conclusions however have been arrived at with regards to what proportion of the total asset management revenue can be attributed to any of the different types of the unit trust products. It is, however, clear that different unit trust products don't contribute equally to the total revenue of asset management companies.

Through the Modern Portfolio theory the relationship between unit trust products and financial performance can be established (Otieno, 2013). The theory advances that investors can construct unit trust portfolios to elevate anticipated financial yields based on a given market risk level. The Capital Asset Management theory, on the other hand, points towards the correlation between the expected financial returns and security risk (Otieno, 2013). In this case, financial performance of unit securities is best captured by taking into consideration of the risks attached to unit trust products preferred by an asset management company.

1.1.4 Asset Management Companies in Kenya

In 2015, the asset management industry in Kenya was recorded as the second fastest growing industry in Africa. The strong capital markets coupled with the macroeconomic stability continue to point to its massive potential. The pension funds and insurance have recorded the highest growth. The asset management industry in

Kenya has largely expanded due to the dynamic changes that have characterised it in the recent years.

The advent of mobile access to financial services has been a game changer with various asset management companies tailor-making their unit trust products to suit the small investors across the country. Old Mutual Kenya was the first asset management company to launch a mobile platform for its investors to "register and manage a unit trust account from the convenience of their mobile phone" in early 2013. Britam and Genghis are some of the other notable players in the industry that embraced the mobile phone platform to pool investors with competitive offers. The Kenyan government has not been left behind in rolling out a similar scheme through the M-Akiba which has seen more Kenyans and Kenyan companies buy government bonds seamlessly. Banks have also embraced the M-Pesa technology to facilitate their clients to access the capital markets using their phones (CMA, 2013). These advancements according to CMA (2013), have enabled the investors to actively "securely place their orders, modify and cancel orders, view order histories and order status in a real-time environment.

With the current 21 players in the asset management industries, the Kenyan Capital Market Authorities is yet to tap its full potential. However, through the enhanced financial literacy and saving culture of the Kenyan populace, most of the institutes have effectively managed to appeal to the investor psyche successfully. As a low-cost way of participating in the capital markets, unit trusts each day are becoming convenient to the ordinary citizen.

As aforementioned, the convenience is afforded by the various mobile phone applications that provide real time information and simplified schemes for different types of investors. The asset management industry is also buoyed by the fact that the average returns from unit trust companies compare very positively with the earnings generated from more out-dated investment products.

1.2 Research Problem

Unit trust products have direct correlation to the financial performance of asset management companies. It is, however, subject the careful selection of optimal unit trust portfolios to maximize the financial returns as envisaged under Modern Portfolio Theory (MPT). Asset managers in an effort to boost financial performance through investment in unit trust products have to consider the risks involved. The Capital Asset Management provides a foundation for the relationship between the expected financial returns and security risk.

Kenyan asset management companies over the years have been focussed on boosting their financial performance. This largely due to the increasing investment appetite in the local populace and the convenience afforded through mobile money and other investment technologies. The entities, however, are much concerned by the continued responsiveness towards traditional investments such as land and real estate. Unit trusts, however, have grown as the most favoured investment funds. According to an East African article by Kang'e Saiti in 2015, unit trusts under management grew from 17.6 billion in 2010 to Kshs 38.1 billion in 2014, a compound annual growth rate of 21.2 percent. Through increased financial performance of unit trust products an investor is

assured steady stream of incomes. He or she is also cushioned from market shocks that may occur once in a while.

The study has been conducted to provide a coherent understanding of the unit trust products and their implication on the financial standing of asset management companies. It has pinpointed determinants of financial performance in the unit trust markets that asset managers need to consider prior choosing unit products to invest in. The information garnered will be fundamental in establishing best ways of diversifying unit trust portfolios to generate positive financial performance. The purpose of this research is to determine the following; does the unit truest products mix have an effect on the turnover and implicitly profitability of asset management companies in Kenya?

1.3 Objectives of Research

The objective of this study is to determine the effects of unit trust products mix on turnover of asset management companies in Kenya.

1.4 Value of the Study

The relevance of the information on the implication of unit trust products on the asset management incomes has proven to be pivotal for various groups or persons. Firstly, this information should aid the fund managers in improving their skills to make viable decisions by taking into consideration different unit trust products and their optimal performance in the Kenyan market. Secondly, the asset management companies should comprehend how best to add value to unit trust products with the intent of boosting and diversifying their incomes. Unit holders should also be able to understand how best to link asset management performance through their reported incomes over specific

periods. The investors should also have a better glimpse on the overall health of the asset management industry by observing trends and key performance indicators (KPIs) that denote the overall health of the capital markets in Kenya.

This study should be of benefit to the Kenyan government through its bodies; National Security Exchange (NSE) and Capital Markets Authority (CMA). The relevant bodies should be in a better position to avail informed policies and counsel to the relevant asset management companies and authorities hence aid the market efficiency and industrial growth. This is largely due to the fact that the challenges faced by the asset management companies in relation to unit products shall be well understood thus creating a conducive investment environment. The fourth group that will benefit from this study is the general public as it shall offer valued information regarding the unit trust products and the asset management industry in general thus impacting future investment decisions. Ultimately, this paper will be a basis for further research to interested bodies and academicians alike. Researchers and scholars that may like to query or investigate the asset management industry and unit trusts should deem this study a sufficient basis for carrying more studies in the Kenyan context.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The objective of this chapter is to review the substantive literature on the subject of the implications of different unit trust products on unit trust incomes of various asset management companies in Kenya. The study looks at the various unit products that are popular in the Kenyan market as well as the unit trust performance determinants that influence asset management companies' investment decisions.

2.2 Theoretical Literature Review

This section will review theories linked to the unit trusts growth and performance. The theories to be reviewed are namely; Modern Portfolio Theory (MPT), and Capital Asset Pricing Model (CAPM).

2.2.1 Modern Portfolio Theory

This theory was introduced by Harry Markowitz through his published paper dubbed "Portfolio Selection" in the Journal of Finance in 1952. This theory advances that "risk-averse investors can construct portfolios to optimize or maximize expected return based on a given level of market risk, emphasizing that risk is an inherent part of higher reward"(Investopedia, 2017). It is hailed as one of the most influential and important economic paradigms touching on investment and finance. The theory was advanced in the 1950's and 1970's and was deemed as a fundamental advancement in the financial modelling (Francis & Kim, 2013).

However, after its conception, numerous criticisms have emerged both practical and theoretical. Critics point out that financial returns do not pursue a symmetric distribution or a Gaussian distribution, and that asset classes correlations vary depending on external factors (Markowitz, 2014). Ultimately, MPT may suffice as a form or type of diversification. In certain scenarios and for distinct quantitative risk and return definitions, the theory establishes how best to arrive at the finest diversification strategy (Gitman & Zutter, 2007). MPT, however, assumes that the risk associated with a portfolio can be reduced if investors take into consideration on the unpredictability of the expected returns. To attain this, it is advisable for investors to pick assets that tend to have unrelated price shifts. Expressly, the theory asserts that diversification leads to portfolio risk reduction in a scenario when the combined assets have inversely-moving prices.

The asset management companies in Kenya should thus focus on investing their client's funds in assets that are diversified and have inverse prices. However, the diversification to take effect it must be backed by proper dissection of the available unit trust products available in the market and their future trends. Markowitz shows that asset managers should not focus only on picking stocks but rather choosing the most viable combination (Markowitz, 2014). A diversified combination will ensure that assets will yield whether it "rains or shines". It is such combinations which lead to sustainable income streams for the asset management companies and their clients. In the quest to achieve this diversified combination, the asset managers ought to identify two components of individual stock returns-unsystematic risk and systematic risk.

Systematic risk denotes the market risks that are non-diversifiable. Recessions, interest rates and wars are fundamental examples of these risks that investors have to be well aware of (Francis & Kim, 2013). Unsystematic risk, on the other hand, is linked to specific individual stocks and can effectively be diversified away by an asset manager as he or she increases the number of stocks in the portfolio (Francis & Kim, 2013). This represents the stock's return component that is not linked with overall market shifts. Thus a well-diversified portfolio, the average deviation from the mean or risk of each stock injects little to portfolio risk (Markowitz, 2014). As a substitute, the covariance or risk between individual stock levels of risk determines the general portfolio risk.

2.2.2 Capital Asset Pricing Model

The model provides a theoretical structure for asset pricing with uncertain or unknown returns. It was established by William Sharpe and John Litner in the 1960's providing a model that has been incorporated in the contemporary applications such as evaluating the cost incurred by firms in capital acquisition and the evaluation of the performance of managed portfolios. It is an extension of the Markowitz model (Fama & French, 2004). However, in the capital asset pricing model two assumptions are made. The first assumption is the "complete agreement"; that is "given the market clearing asset prices at t-1. Investors agree on the joint distribution of asset returns from t-1 to t.

And this distribution is the true one –that is, it is the distribution from which the returns we use to test the model are drawn". The second assumption asserts that "borrowing and lending at a risk-free rate" (Fama & French, 2004). This ought to be same or equal for all investors and is not dependent on the amount lent or borrowed. The CAPM cites

that the return to investors has to compare to: the risk-free rate, plus a premium for the stocks as a whole that is higher than the risk-free rate, Multiplied by the risk factor for the individual company (Otieno, 2013). Mathematically, this can be expressed as;

$E(Ri) = Rf + \beta i\{(Rm)-(Rf)\}$

Where; $E(Ri)$= Expected return of security I, Rf = Risk free rate βi = Beta of the security I, $E(Rm)$ = Expected return on the market, $E(RM)-Rf$= Market premium.

The above equation highlights that the expected return on security I, is indeed a linear combination of risk free return on portfolio M. This relationship is a result of efficient set mathematics. The coefficient beta, β measures the risk of security I, and is related to covariance of security I with the tangency portfolio, M. The expected return will equal the risk free asset plus a risk premium, where the risk premium depends on the security risk. .The expected return for security which is described by the equation is known as the security Market Line (SML) (Otieno, 2013).

The expected returns in the SML equation are linear and coefficient beta:

$\beta i = \sigma i\ m/\sigma 2\ m$

The SML is also known as the capital asset pricing model equation. It denotes the relationships that must be met among the security's return, the security's beta and the return from portfolio M Otieno (2013).

The CAPM model provides a simple mechanism for corporate managers and investors to analyse their investments. The model indicates that all managers and investors need to carry out a comparison and evaluation of the required return and the expected return (Otieno, 2013). If the expected returns are unfavourable, it will be prudent to abort

intentions for potential investments within the particular portfolio. The model takes into consideration the asset's sensitivity to systematic risk which as aforementioned is a non-diversifiable risk, as well as the expected market return and expected return derived from a theoretical asset which is risk-free. Utilizing beta as the measurement of risk, the capital asset pricing model then redefines the expected return in terms of expected risk premium and risk-free rate (Khalife Soltani, Eslamzade, & Nooryan, 2010).

Drawing the link between return and risk of a portfolio that is the trade-off between risk and returns, the link between the two elements of specific portfolios are evaluated and the results comprehensively based on the findings. The model advocates for diversified portfolios with a risk-return relationship in the quest to invest for different clients. The asset managers in Kenya must focus on the co-movement of the two variables to strike the right balance that will inherently yield the desired unit trust incomes. Using the Sharpe and Litner prescription, the asset managers ought to estimate "a stock's market beta and combine it with risk-free interest rate and the average market risk premium to produce an estimate of the cost of an asset, for instance, an equity" (Ombongi, 2014).

2.3 Determinants of Performance of Unit Trusts

There are some elements that determine the performance of unit trusts within the asset management context. This study will review three variables that look into the performance of unit trusts. These are namely; portfolio management, expense ratio, and fund size growth.

2.3.1 Portfolio Management

The portfolio management is deemed as a complex process which incorporates various platforms namely; establishing investment policy, portfolio selection and diversification.

2.3.1.1 Establishing Investment Policy (Style)

According to Chandra (2006) investment policy may have negative or positive implications on an asset management company's investment. An asset management firm cannot plot its investment policy that defines its investment objectives and style at its disposal. These objectives have to be dissected in terms of risks and return. This style should have distinct goals in regards to the risk tolerance and investment return requirements. Establishing the risk tolerance is one of the most fundamental objectives. This is because every investor and by extension asset manager desires the highest return possible. However, the asset managers should take the prerogative to inform their clients on how not to only focus on making "a lot of money" but rather achieving the right balance between risk and return (Chandra, 2006).

Investment should therefore look into the associated limitations which could easily sway the asset management. Limitations can constitute projected investment horizon, investor liquidity needs, as well as other exclusive preferences and needs of the asset managers.

2.3.1.2 Portfolio Selection and Diversification

Based on an asset management company's goals and constraints, asset allocations can be specified. It is the asset management company's decision on how much of clients' portfolio has to be invested in different asset groups or categories: bonds, cash, real

estate, stock, gold and others. Arriving at this asset mix is embodied in the conventional wisdom, that an asset manager that has a great risk tolerance should incline the asset portfolio in favour of stocks, while where an asset manager has lesser risk tolerance he or she ought to invest in bonds. Other elements that have to be focused on include taxes (Chandra, 2006). For instance, there exist tax-free and taxable bonds. The tax-free bonds have less interest in comparison to the taxable bonds where one has to pay taxes on any incomes received.

Diversification in a portfolio is another determinant which focuses on spreading money across various unit trust products in the hope that if one investment loses money, the others can easily neutralize the experienced losses. Asset management companies through their expertise ought to invest their clients' money across different portfolios rather than invest their entire funds in a few single or a few assets. Through due diligence, the Kenyan asset management companies may focus on diversification of asset portfolio to influence their unit trust incomes positively.

2.3.2 Expense Ratios

Funds that are managed passively usually incur lower overheads and outdo those that are managed actively. Asset managers usually incur costs in terms of operating and research expenses when it comes to the actively managed funds. These expenses are measured using the expense ratio. These expenses cumulatively cover all management fees and operation expenses excluding the costs associated with the brokerage.

Sharpe (1966) notes that the funds that are associated with lesser expenses tend to perform better. However, this assertion is conflicted by the studies by Friend et al.

(1970). In their book, Friend et al. (1970) note that there was no significant link between expense ratio and performance, simply a slight positive link to the turnover ratio. Net of fees, risk-adjusted returns, and expenses of various active portfolios are "as good as those of index funds, and that fund performance is not linked to management fees and portfolio turnover" (Ippolito, 1989).

Other financial pundits such as Grinblatt and Titman (1998) cite that mutual funds can provide adequate returns to offset incurred expenses. However, these findings are vary with the assumptions of the efficient market theory (EMT) which denotes that expenditures such as trading and research expenses ought not to be incurred in a market in which securities prices already integrate the obtainable information.

According to Ippolito (1989) established that the fund performance is not in any way linked to the turnover, expense ratio and management fee. The three, however, are dependent on mutual funds size. It appears that funds with greater fees, expenses and portfolio turnover, do acquire adequate risk-adjusted yields to balance out the higher charges incurred. For many asset managers, mutual funds are adequately key in obtaining and applying new information to counterbalance their expenses. A study of the international mutual funds by Fortin and Michelson (2005) no relationship was established between expense ratio and performance but highlighted a positive link between performance and turnover.

2.3.3 Fund Size

The overall net assets under management can have direct implications on performance as the funds required to achieve a specific least size to attain returns net of research

costs and other miscellaneous overheads. Large funds, however, do incur notable costs that result in negative or diminishing marginal returns. The magnitude of the fund offers advantages cost-wise, as brokerage expenses for large transactions are lesser while research costs rise less proportionally with the size of the fund. After rising above the ideal size, a large fund may lead to investing with some assets of low quality. This is coupled with the increased administrative costs for supplementary staff coordination to manage sub funds (Indro et al., 1999).

The popular opinion is that small unit trusts perform better than bigger ones. This draws credence from the market liquidity theory. Studies, however, indicate that there exists an optimal fund size. Funds ought to realize a least possible size to attain sufficient earnings. Kenyan Asset managers, therefore, may opt to be keen on the fund size to ensure that they don't operate above the optimum size. This will be critical in ensuring that they increase their performance fees which have a direct impact on their unit trust incomes.

2.4 Empirical Literature Review

This section has reviewed a number of empirical studies on unit trust products and asset management theories models in the study. Studies touching on MPT, CAPM, and APT will be looked into in that order.

2.4.1 Empirical Studies on MPT

Maina (2003) looked into the return and risk-related investments as owned by the insurance companies seeking to establish the link between risk and return of the available investment channels in Kenya.

Using 10 insurance companies' investment data, the study established that there was no link between the mean rate of return and risk on investment. From the findings, there appears to be a slight correlation between return and risk of investments held by insurance companies. It disputed the notion by Markowitz that return-risk relationship holds for investment.

Kirkeggar (2006) evaluated the MPT application with the aim of investigating if an asset manager can rely on MPT to attain enhanced returns rather than invest in an index portfolio. Having a strong portfolio combination that performs well in the market would be the final goal for most investors/asset management companies. The study incorporated data from the Stockholm Stock Exchange.

A survey carried out by Said (2012) to establish the application of the MPT theory within the Nairobi Securities Exchange. He investigated how an investor through his or her asset management company could effectively attain a higher risk-adjusted return in comparison to the market portfolio. The author conducted the survey between 1st January 2007 and 31st December 2011 on all firms then listed on the NSE. The survey incorporated secondary data to put up a portfolio consisting of 8 high performing securities with the optimal portfolio. The NSE 20 share index was used as the benchmark for comparison with the identified portfolio.

Share prices at the start and the end of the month were used as well as the amount of dividend issued. The standard deviation in the calculation was used as the risk measure as the return on the portfolio was computed. The end-result was that the optimal portfolio was seen to outdo the market portfolio

2.4.2 Empirical Studies on CAPM

A study by Were (2012) utilized the CAPM model to evaluate the weekly NSE returns. Historical data of at least 20 Kenyan companies at the NSE for the period January 2005 to June 2012 was utilized. Using a descriptive analysis, the returns of the companies were analysed. The result was that the portfolio with the highest beta consequently, had the highest return while the investment portfolio that had the lowest beta had seemingly lowest returns. The study also established that higher risks were directly linked to higher returns. Were (2012) concluded that market regulators and investors ought to take into account the risk-return exchange while arriving at investment decisions.

Nyambura (2012) surveyed the asset pricing strategies at the Nairobi Stock Exchange (NSE) with an emphasis on the evidence and application of the CAPM. The study sought to establish whether CAPM worked effectively in the NSE as an emerging market in Africa. The research further sought to "determine the stock returns and hence the estimation of beta coefficients (risk) for the securities listed in the market" (Nyambura, 2012). Using some equity stocks at the NSE, the study evaluated empirically the link between beta and returns as the model asserts, over the period from January 1997 to December 2003. The findings supported the hypothesis that "if the market prices the risk variable, then there exists a systematic relationship between the average returns and risk variable" (Nyambura, 2012). The study concluded that the CAPM worked in the Kenyan market with the establishment of a weak relationship with "31.4% of market return explaining stocks return" (Nyambura, 2012).

2.4.3 Empirical Studies on Determinants of Performance Unit Trusts

Much of the studies touching on unit trusts are carried out mainly in the United States, Australia, Great Britain and Japan. This is because much of the unit trust products and mutual funds are relatively new in many countries across the globe. It is only in 2001 that unit trusts were introduced in the Kenyan market.

Sharpe (1966) carried out a study by incorporating 34 mutual funds for the period between 1954 and 1963, calculating "the correlation between each fund's Reward Volatility (R/V) ratio and its net asset value "(Ombongi, 2014). The R/V ratio was calculated as the "difference between funds average annual return and the pure interest rate divided by the standard deviation of the annual rate of return "(Ombongi, 2014). The study further discourses the implication of size on the performance of funds where funds with considerable assets could acquire a certain degree of security evaluation by utilizing a minor percentage of its revenue than a relatively lesser fund can.

Chong, Lim, and Chia (1997) note that diversification is fundamental in the unit trusts market. The authors highlight that much of asset management incur low or negative returns in the Singaporean market due to poor diversification strategies by respective asset managers. They also evoke the Markowitz Modern Portfolio Theory to highlight the difference between efficient and naïve diversification.

Omonyo (2003), notes that many asset managers act in the best interests of their clients who also double as the fund owners. As such, asset managers must work with high discretion noting that they are held and charged with a higher degree of knowledge or standard of care than the average investor.

The study also noted that Pension Fund Managers in Kenya take into consideration risk and return as the fundamental elements in the investment decisions. Wood (2003) asserts that diversification is one of the viable strategies that investors can use to mitigate risk. However, the author cautions that a right balance must be struck for diversification to work properly.

According to Detzel (2006), asset managers ought to evaluate their fund size on a regular basis due to the existing proof that fund size tends to shift over the years. Maiyo (2007) in his study dubbed "The Performance of Unit Trusts in Kenya" noted that equity funds have "a high commensurate with the high returns" since they are the most aggressive of funds. The popularity of equity funds in Kenya is denoted by the author as they comprise over 50% of all the unit trust funds held by asset managers in Kenya. Most of these asset managers are risk averse meaning with high returns come high risks. The money market, on the other hand, has less aggressive investors with low returns as well as low risks. The study showed that equity funds underperformed in the NSE-20 share index in comparison to money market fund which outperformed the 91-day treasury bill rates"(Maiyo, 2007).

Abd Karim (2010) in his study on the Malaysian Islamic funds drew a direct correlation between asset managers' special investment skills and funds' performance. The special skills enable the asset managers to easily outperform the market in any given set of conditions. A study by Kasanga (2011) found that the abilities of the fund managers to forecast and time both money market and equity portfolios were fundamental performance determinants for unit trusts in Kenya. The study used historical data from January 2008 to December 2010 to project these findings.

The relationship between unit trusts performance, and asset allocation in Kenya was carried out by Maina (2011). By using a selected number of companies under the Collective Investment Schemes, the author established unit trust performance was enhanced where fund managers preferred to invest in viable stocks at the Nairobi Stock Exchange.

Buster (2012) established there was a divergence between the performance of the unit trusts and the market. Using the 2011 financial reports, the stock market is observed to have fell in its performance whereas the unit trusts performed better return wise by 18% in comparison to the past years. However, previous years both unit trusts and stock markets were affected by external factors namely post-election violence. This is one of the reasons many asset managers sought to diversify their holdings further by enhancing unit trust investments.

2.5-Conceptual Framework

Independent Variables

Portfolio size in terms of fund proportion to the total fund portfolio;

- Money market Fund
- Equity Fund
- Balanced Funds
- Bond funds

Dependent Variables

Incomes

- Total unit trust Revenues
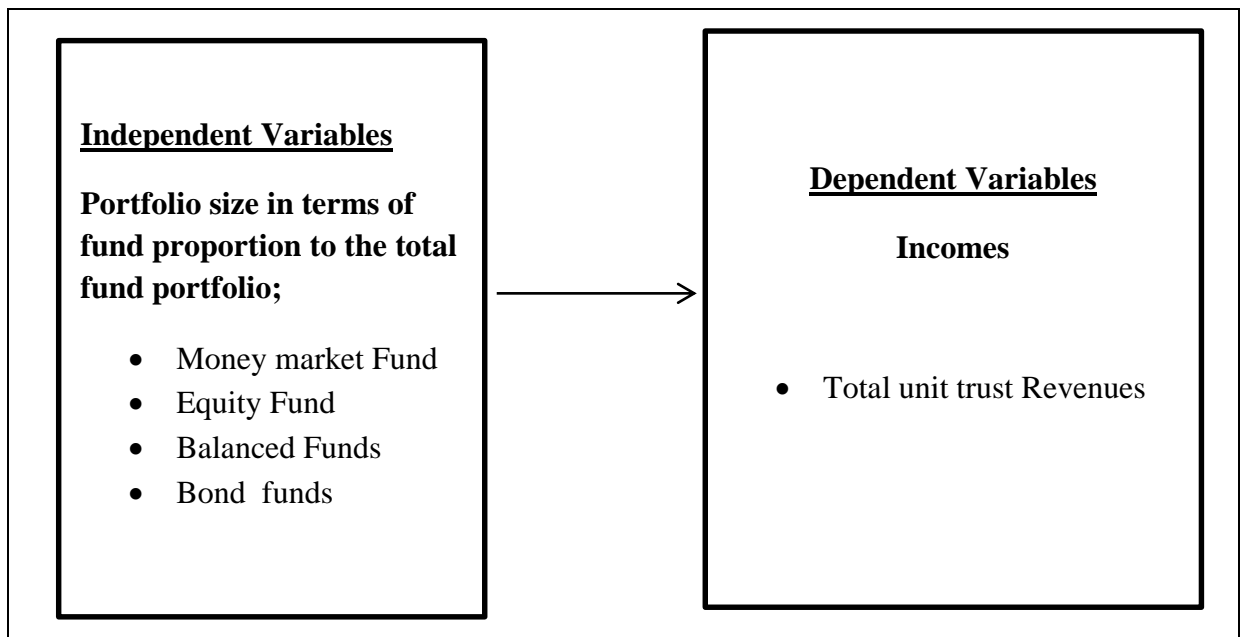
2.6 Summary of the Literature Review

As observed in the study there is a great correlation between the unit trust products portfolio and financial performance of an asset management company. With focus on determinants of unit trust performance such as portfolio management, expense ratio, and fund size growth, asset managers can structure investments that attain optimal gains.

Studies indicate that financial performance of asset management companies may be positive or negative subject to the risks and returns involved as envisaged by Capital Asset Pricing Model (CAPM) and Modern Portfolio Theory (MPT). The research points out that expense ratio have insignificant impact on the financial performance in the Kenyan unit trust products performance. Therefore aggressive Kenya asset management companies can generate enough resources to offset any expenses that may be incurred hence ensuring positive financial performance. In essence, the fund size and the asset management expertise are the key driving forces in the unit trust market which in turn generates positive financial returns.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter seeks to highlight the methods adopted in conducting the research, as well as, the design chosen for the study. The researcher has employed a mixed research design that incorporates both qualitative and quantitative research methodologies. The choice of the research design is based on the nature of the study, which requires the utilization of first-hand and secondary data. The chapter also elaborates the target population of the study and the sampling approach to be followed by the researcher. The collection of both secondary and primary data of the research as also been discussed in this section. This chapter also discusses the analysis techniques to be used for this research and the measurement precision of variables. The justification of the methodology adopted by the study is also provided in this section.

3.2 Research Design

The mixed research design has been used for this particular study. As such, both qualitative and quantitative research methodologies has been utilized by the researcher. The researcher resolves to employ the qualitative research method given that various theoretical frameworks support the research topic. The qualitative research strategy strives to offer an understanding of the essential motivations, causes, and views of a specific aspect (Myers, 2013). As such, the qualitative strategy has been substantial in underlining the effects of different unit trust products on unit trust incomes of asset management companies in Kenya (Zikmund et al., 2013).

The quantitative research approach, on the other hand, gives the study a prospect to investigate the aspects of unit trust products of asset management companies in Kenya using a prescribed statistical technique. This descriptive research method has applied a case study research for asset management companies in Kenya. The case study approach collects data to produce efficient results; however, it primarily collects data from a small number of organizations or individuals, implying it does not produce unbiased evidence; hence, it is most suitable for the research (Mugenda & Mugenda, 1999). The researcher has applied the case study method in performing the investigation of the effects of different unit trust products on unit trust incomes of asset management companies in Kenya.

3.3 Population

A population can be defined as a distinct collection of people or objects that have related characteristics, which create the need for a scientific query. The population of the study comprises of the 21 registered unit trusts in Kenya as at April 2017 by the capital markets authority.

3.4 Sample Design

The judgmental sampling approach has been exploited in the study to pinpoint different companies in the asset management segment that fit the study. This sampling approach has been realized by inspecting the companies that have superior unit trusts products on the market. This has been substantial in presenting the effects of different unit trust products on unit trust incomes of asset management companies in Kenya. As such, the researcher seeks to collect data from all the registered unit trust managers with publicly available data on portfolio composition and performance.

3.5 Data Collection

The data collection process of the research has employed both primary and secondary data. The secondary data has been sensible in ascertaining that the research has sufficient data, which has been significant in providing the essential outcomes of research. The researcher anticipates exploiting diverse sources in the attainment of dependable secondary data, and these include; books, company reports, journals, online sources and published financial statements. The majority of the primary data has been acquired from the sampled participants. The primary data collection tool of this particular study was questionnaires and interviews which is relevant in the delivery of the required data. Consequently, the secondary was available in the previous studies performed on the topic of unit trusts products and unit trusts income.

3.6 Data Analysis

The choice of the mixed research methodology in this particular study permits the researcher to apply both qualitative and quantitative analysis approaches (Myers, 2013). The researcher will embark on a heightened qualitative scrutiny of the collected secondary data to recognize notable features of these data, which satisfy the research purpose (Zikmund et al. 2013). The quantitative analysis strategy will necessitate the utilization of statistical examinations of the data obtained in the study. A multiple linear regression analysis of the collected data will be sufficient in providing the research findings. The researcher will, nevertheless, undertake some computations, including the measures of central tendency to ensure the delivery of credible findings of the study. Secondary data shall be collected bi-annually for the past ten years spanning 2006-2016.

3.6.1 Analytical Model

A multiple linear regression model shall be used to establish how the dependent variables associate with the explanatory variables.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \varepsilon$$

	Model Variables	Operationalization
1.	Y	Natural logarithm of declared revenues earned from unit trusts management
2.	$B_{1\text{-}6}$	Beta Coefficients; Change in dependent variable, caused by unitary change in explanatory variable
3.	X_1	Proportion of Equity fund to total unit trusts portfolio
4.	X_2	Proportion of Money Market Fund to total unit trusts portfolio
5.	X_3	Proportion of Balanced Fund to total unit trusts portfolio
6.	X_4	Proportion of Bonds Fund to total unit trusts portfolio
7.	X_5	Age of the fund in years
8.	X_6	Annual Inflation index
9.	ε	Error term, The changes in the response variable that can't be explained by the independent variables.

The researcher has carried out the diagnostics of the dependent variable using the coefficient of determination ($R^{2)}$ test to ascertain what proportion of the dependent variable is explained by the model. The Pearson's co-efficient has as well been applied to ascertain linear relationship between the variables.

3.7 Reliability and Validity of Research

The mixed research methodology is effective in offering answers to the study problem given that effects of different unit trust products on unit trust incomes of asset management companies necessitates a full depiction of the phenomena, that is, the effects of different unit trust products.

The qualitative methodology is also admissible in this research because the research also depends on some fundamental hypothetical models (Myers, 2013). Consequently, the quantitative research methodology has proven reliable in undertaking an investigation into the research topic by utilizing statistical techniques that enable the delivery of the required findings.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The chapter itemizes key information on the findings of the research and provides an analysis of the data that was collected using the instruments and methodologies that were listed in chapter three. Included herein is both the qualitative and quantitative approaches used, the validity of the data collected and how the researchers employed different methods and strategies to ensure that the data collected was valid, reliable and free of bias so as to provide credible grounds on which to draw the analyses, conclusions, and recommendations. Lastly, the chapter discusses the descriptive statistics, correlation analysis, the statistical computations and a discussion of research findings.

4.2 Response Rate

21 requests for interview sessions were sent to portfolio managers of twenty-one companies that had registered unit trusts in Kenya as at April 2017 as provided by the capital markets authority. However, only 15 of the 21 portfolio managers provided feedback on attendance to interviews that were to be conducted. As a result, only 15 interview subjects were guaranteed as sources of legitimate data for this research. However, 5 of the 15 questionnaires issued to the participants during the interviews were not completed as the managers were unavailable for the actual interview due to various official engagements.

Given the 5 incomplete interviews, the remaining 10 interviews were a success. Since the total number of conducted interviews was considered as a base on which to calculate the response rate, the response rate was found to be 67% since 10 out of 15 portfolio managers who were willing to participate in the research took part fully in contributing to the findings. The following chart shows a visual representation of participants' response:

Figure 4.1 Response Rates of the Participants

RESPONSE

Incomplete responses

Complete Responses

Source: Author, 2017

A 67% response rate is adequate for the analysis since the ten portfolio managers who were unbiasedly selected to participate in the research are sufficient representatives of the whole population which was targeted to provide findings for the research. The deficit of 33% in response rate can however not be considered as a significant limitation to the plausibility of the findings.

To ensure that the data collected from the participants using the questionnaires were viable enough to be used as a criterion on which to develop viable findings, it is important to conduct a data validity test on the data collection process, instruments, and findings. The major test of validity used in the research was content validity which refers to the degree in which a data collection tool represents the aspects that are being studied. To ensure content validity, the researchers ensured that the questionnaires contained a wide variety of questions that gauged the portfolio managers' knowledge on the impact that unit trust products have had on the incomes of asset management companies' in Kenya from a general, then specific perspective.

Since some parts of the questionnaire took the form of verbal communication of the respondents when answering the questions, all the respondents completed the questionnaires in the presence of the researcher and thus, the research participants did not give the questionnaires to other people such as their secretaries or assistants to fill in on their behalf. Thus, the data collected was made as valid as possible to ensure the increased credibility of the findings and, consequently, conclusions and recommendations.

4.3 Summary Statistics

The research involved both qualitative and quantitative data. Content analysis was used to analyse qualitative data while for quantitative data, descriptive statistics analysis was done using the SPSS software.

Statistical inferences such as the means, standard deviations, the coefficient of variation, kurtosis and skewness for each of the variables involved in the study were

computed. Based on the analysis of the data using SPSS software, the following values were obtained for the means, standard deviations, the coefficient of variation, kurtosis and skewness for each study variable:

Table 4.1 Table showing the descriptive statistics of the independent variables

	Descriptive Statistics							
	N	Mean	Std. Deviation	Variance	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
X1	91	.155440	.1318397	.017	.795	.253	-.274	.500
X2	102	.677157	.2869142	.082	-.788	.239	-.672	.474
X3	89	.137809	.1573705	.025	1.719	.255	1.945	.506
X4	72	.075083	.1213690	.015	3.327	.283	15.043	.559

Case study research was implemented so as to research on the effects of different unit trust products on unit trust incomes of asset management companies in Kenya The data which was analysed during the case study research included the financials of the ten asset management companies in Kenya which had registered unit trusts by April 2017. The data was analysed through interpreting the reports provided by the companies.

In the questionnaire, the first question inquired about two demographic questions to the participants: their gender and their age bracket. Based on the findings, the two tables show the percentage of male and female participants as presented able 4.1 belonging to different age brackets as presented in table 4.2. The demographic statistics were important in determining the scope of the study.

Table 4.2 Gender Distribution of the Subjects

Gender	Frequency	Total
Male	6	60%
Female	4	40%
Total	**10**	**100%**

From the table above, it can be deduced that male participants were more than female participants given that male participants made 60% out of the 100% total participants while the female participants made up the remaining 40%.

Table 4.3 Age Distribution of the Subjects

Age Bracket	Frequency	Percentage
20-30	1	10%
31-40	3	30%
41-50	4	40%
51 and above	2	20%
Total	**10**	**100%**

From the table above, it is evident that most participants were aged 41 to 50 years old, followed by those aged 31 to 40 years old, those aged 51 years and above and, lastly, those aged 21-30 years old where only one participant was below 30 years old.

Based on the questionnaire, it was deduced that eight out of the ten respondents thought that the asset management industry and, especially, investments in unit trust funds are currently experiencing a positive growth and that competition is set to increase as more companies join the industry. The two remaining respondents were of the opinion that little had been done to nurture the industry and that some of the unit trust funds were

experiencing negative instead of positive growth. The questionnaire also depict that nine out of ten portfolio managers were of the opinion that the four unit trust fund types (bond, money market, balanced and equity funds) were the most prevalent amongst other unity trust fund types and that the four had better chances of widening profit margins for the company and its investors.

4.4 Product Mixture and Turnover

4.4.1 Results of Correlation Analysis

Table 4.4 Table showing the Correlation and between the variables

Correlations

		Y	X1	X2	X3	X4
Y	Pearson Correlation	1	.523**	-.416**	.227*	-.332**
	Sig. (2-tailed)		.000	.000	.032	.004
	N	102	91	102	89	72
X1	Pearson Correlation	.523**	1	-.778**	.428**	.225
	Sig. (2-tailed)	.000		.000	.000	.069
	N	91	91	91	84	66
X2	Pearson Correlation	-.416**	-.778**	1	-.886**	-.419**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	102	91	102	89	72
X3	Pearson Correlation	.227*	.428**	-.886**	1	.676**
	Sig. (2-tailed)	.032	.000	.000		.000
	N	89	84	89	89	66
X4	Pearson Correlation	-.332**	.225	-.419**	.676**	1
	Sig. (2-tailed)	.004	.069	.000	.000	
	N	72	66	72	66	72

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

Based on the correlation results using Pearson correlation, a linear relationship between the dependent and each independent variable can be deduced. Based on the table, the correlation between total income and equity funds is strongest at 0.523, followed by balanced funds and then bond funds while the least correlation observed was with money market funds at -0.416. Amongst the independent variables (bond, money

market, balanced and equity funds) the strongest observed relationship was between bond and balanced funds at 0.676 while the least correlation observed was between balanced and money market funds at -0.886.

4.4.2 Results of Model Goodness of Fit

Regression analysis was done by using the regression presented in chapter 3;

$$Y=\beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+\beta_4X_4+\beta_5X_5+\beta_6X_6+\varepsilon$$

The following information pertains the linear regression computation as conducted using the SPSS Software tool:

Table 4.5 Linear Regression Analysis: the Model Summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.406[a]	.165	.110	.3023230

a. Predictors: (Constant), X_4, X_1, X_3, X_2 - Equity, Balanced, Money market, Bonds

The coefficient of determination (R square) is 0.165 which means that a significant portion of total income attributed to unit trust for the companies is explained by the regression model.

4.4.4 Results of ANOVA

Table 4.6 Linear Regression Analysis: the ANOVA Test

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.099	4	.275	3.006	.025[b]
	Residual	5.575	61	.091		
	Total	6.674	65			

a. Dependent Variable: Y
b. Predictors: (Constant), X_4, X_1, X_3, X_2

The analysis of variance (ANOVA Test) depicts that the data processed has a significance level of 2.5% which is less than the P-value of 5% showing that it is ideal and significant in making inference about the population parameters. At the significance level, the F calculated is 3.006 while at the same significance level and the given degrees of freedom the F critical is 2.523 Therefore the overall model is significant and that the explanatory variables sufficiently explains the response variable.

4.4.5 Estimation of Model

Table 4.7 Linear Regression Analysis: Coefficients of Variables

Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	7.306	1.433		5.099	.000
	Proportion of Equity fund.	1.860	1.477	.764	1.259	.213
	Proportion of Money Market	.861	1.440	.791	.598	.552
	Proportion of Balanced Fund	.672	1.395	.359	.482	.632
	Proportion Bond Fund	.369	1.959	.073	.188	.851

a. Dependent Variable: Y
The proportions referred to above are with reference to the total unit trust portfolio.
Based on the regression analysis data, therefore, the regression equation would be given

as:

$$Y = 7.306 + 1.860X_1 + 0.861X_2 + 0.672X_3 + 0.369X_4 + \varepsilon$$

From this regression equation it was revealed that holding proportions of Equity funds, Money market funds, Balanced funds and bond funds constant revenues of asset managers would be at 7.306, a unit increase in equity funds would lead to an increase in revenues of asset managers by a factor of 1.86, a unit increase in money market would lead to an increase in revenue of asset managers by a factor of 0.861, a unit increase in balanced funds would lead to increase in revenue of asset managers by a factor of 0.672, further a unit increase in size of bond fund would lead to an increase in the revenues of asset managers by a factor of 0.369.

4.5 Discussion

At 5% level of significance and 95% confidence level, Bond fund has a significance level of 0.851 which is greater than the P value (0.05) hence its relationship with response variable insignificant, balanced fund of 0.632 which is greater than the P value (0.05) hence its relationship with response variable insignificant, money market of 0.552 which is greater than the P value (0.05) hence its relationship with response variable insignificant and equity funds a significance of 0.213 which is greater than the P value (0.05) hence its relationship with response variable insignificant.

$X5$ and $X6$ involved varying ages of funds and inflation respectively, in the former no respondent could ascertain with a significant level of absolute certainty the fund age while inflation effects were considered insignificant in the objectives of the study as it affected the performance of the funds identically as per the respondent.

The research findings are in line with the Modern Portfolio Theory which states that when making investment decisions, investors normally try to avoid or reduce the risks involved and, thus, create their own portfolios so as to limit the risks while maximizing the returns that would be expected while asserting that higher risks imply higher returns (Omisore, Yusuf, & Christopher, 2014). Unit trusts present such a portfolio for investors, and according to the case study analysis and questionnaires, it is evident that investors combine the different types of unit trust investments but major on money market funds since higher risks and, hence, higher returns, are earned. Therefore, the findings by the research have depicted that the existing theories such as the Modern Portfolio Theory are accurate.

4.6 Summary

My major finding was that the different unit trust products had different degrees of contributions to the total income attributed to unit trusts and that the unit trust products had a positive impact on the incomes by asset management companies but losses in some unit trust products had negative effects on incomes of the companies as well.

I found what I intended to find because of three reasons; I located findings on the influence of unit trust products on unit trust incomes of asset management companies in Kenya; I developed findings that can support the impact of unit trust products on the profitability of asset management companies, I also managed to come up with findings that portray the success of the unit trust products in asset management companies in Kenya. I think that the trend is because of increased concentration in unit trust investments and, specifically, money market products as a way to generate revenue.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter discusses the summary of the data collection process as well as the pre-data-collection and analysis stages by providing a summary and conclusions of the data while also discussing the recommendations based on the findings. The chapter also provides the limitations of this research and therefore, creating a basis on which recommendation for further studies is discussed. Summary of the findings is based on the objectives that had been stated in Chapter 1of the research.

5.2 Summary of Findings

The findings of this research indicate that most unit trust companies have continued to increase their income attributable to unit trust as a result of diversifying their investments in unit trust product portfolios and increasing the volume of financial investments that they make. The findings are divided based on the findings that are relevant to fulfilling the three objectives that were listed in chapter 1 of the research.

The main objective is: examining the influence of unit trust products on unit trust incomes and consequently the profitability of asset management companies in Kenya. The findings can then be subdivided further based on the independent variables in the study (bond funds, money market funds, balanced funds and which are discussed in relation to the independent variable (income attributable to unit trust products). These findings are in tandem with the findings of Rebecca (2011) who applied a multiple regression model to establish the effect of portfolio characteristics on financial

performance of unit trusts in Kenya and from the findings inferred that that there exists a relationship between portfolio characteristics variables and financial performance of unit trusts in Kenya.

5.2.1 Examining the influence of unit trust products on unit trust incomes of asset management companies in Kenya

Money Market Funds have displayed the highest Pearson's correlation Co-efficient of 0.982.Showing a strong positive linear correlation with unit trust incomes of the sampled respondents. The case study analysis reported that money market funds are the unit trust products with the most returns even in terms of revenue volumes. Money market has contributed to over 60% of the total funds under management preferred most for its risk averseness and short investment horizon. Mostly invested in call and fix deposits as well as treasury bills that have a guaranteed rate of return. Holding other factors constant there is a direct relationship between revenue and profitability. The greatest risks facing money markets however remain imprudent financial management leading to collapse of banks with client's deposits where asset management companies remain heavily invested as well as shrinking and collapse of some mega players in the retail chains industries where most managers have invested in their commercial papers.

Based on our findings bond funds have shown a Pearson's correlation co-efficient of 0.659.This is a strong linear relationship with the incomes of asset management companies in Kenya. Bond funds are considered lower risk investments as they focus on government and high rated corporate bonds rewarding mainly through dividends and capital gains.

Traditionally government bonds were access to privileged few as the lowest face value was floored at kes.50,000 before demystifying it with platforms like M-Bonds where with as little as kes.3000 one can invest in government securities. Asset managers were therefore adding value by aggregating small investors and pooling the funds to meet the minimum investment thresholds. It will however remain key to note how the above move by the government shall affect incomes from bond funds.

Equity Funds channel their funds to shares of listed companies. The Pearson's Correlation coefficient for Equity funds is 0.535.This relationship however positive is not as strong as Money market. In our research it was clear that a significant number of investors buy shares directly from the companies they perceive are and will continue doing well which is a result of heuristic driven biases like representativeness, overconfidence and anchoring. Kenya has experienced some internal and external shocks over the past that has adversely affected the general corporate performance with the equities market experiencing the first primary shocks, among them the sharp rise in inflation over the past ten years, post-election violence and the subsequent recession and general worsening of the operating environment. Equity funds have however outperformed peers in the long term and long investment horizon.

Most balanced funds have hybrid properties of equities and money market. The uptake is however low with asset managers having less than 5% of their funds invested in balanced funds. The Pearson's correlation coefficient of 0.059 shows weak linear relationship with unit trust incomes. The intuition behind balanced funds is that losses in one fund can be offset by gains in the other fund especially where the funds have an

inverse relationship. However, most investors are on extreme ends of the risk line as either purely risk averse or appetite for risk.

5.3 Conclusion

The study findings show that unit trust products have a positive impact on the incomes, profits, and success of the asset management companies. The findings also show that the incomes, profits, and success made by the asset management companies owing to unit trust investments are consequential in such a way that incomes will determine the level of profits and profits, in turn, will determine the general success of the companies over a given number of years. According to the findings, the companies have varying amounts of earnings owing to the unit trust products and the amounts earned by each of the companies owing to each of the unit trusts also varies widely in terms of millions of Kenyan Shillings, a trend that justifies the large values of standard deviations and variances.

These findings imply that the industry is generally experiencing unbalanced investment volumes and, hence, income level in the unit trust products. Not all the companies experienced similar returns in each of the unit trust products unlike the implications of the general analysis. The trend also means that individual companies do not perform similarly in each of the unit trust portfolio products. The findings from the managers also imply that while there are some unified opinions on the asset management industry performance, not all situations coincide. The implications of the research findings give rise to the need for recommendations on the findings.

5.4 Recommendations for Policy

According to the findings and as stated in the concluding statements, the asset management industry, even with the small number of asset management companies having joined the industry, the performance of specific unit trust products are dispersed, and the distribution of returns on investments are widely varied between the companies. The trends suggest that there is a need for an external mandated company such as the Capital Markets Authority to intervene and encourage even distribution of investments in unit trusts and a fairer competitive environment for the twenty-one companies. Efforts that could be made by the CMA in relation to the imbalance include issuing regulations on the pooling of investments into various units, standardization of investment incentives in the industry and encouragement of small players to invest more on the unit trust funds that generate more capital for them so as to build momentum for those unit trust products that they are not performing well at. For example, Apollo Unit Trust could capitalize on balanced funds but at the same time, plough its profits to capitalize on improving the performance of its Money Market funds where evidently, is lagging behind.

Based on the findings, companies such as Old Mutual and Stanlib have reported negative equity fund income but some of the highest money market funds. The two companies, along with other asset management companies that may be experiencing similar situations, should concentrate on problem-solving so as to ensure that they record revenues and profits instead of losses. Since the other companies have depicted that it is possible to earn income and profits on equity funds, the companies should work on keeping up with their competitors.

The general performance of the asset management companies over a three-year has made it clear that the industry is experiencing continuous positive growth despite minor instances of negative growth. It, therefore, implies that CMA should make efforts towards attracting more investments to the industry.

5.5 Limitations of the Study

Despite the wide scope that this research has covered in terms of affording an insight into the impact of unit trust products in the income levels, profitability and long-term success of asset managing companies in Kenya, there are weaknesses in the study that limit its ability to provide an in-depth and all-round analysis of the research objectives. These limitations pertain the selection of the sample from the target population, instruments used to collect data in the research, issues surrounding self-report, and issues of internal validity that were difficult to contain. The data sample chosen in this study represented only 10 out of the twenty-one authorized asset management corporations in Kenya by April 2017. While the sample is sufficient to conduct the research, it may not be sufficient to provide sufficient data to draw informed conclusions.

The research utilized questionnaires but failed to capture precise financial details from the participants which created a risk of false or speculated information by the participants especially the age of funds probably due to the high turnover of respondents. The case study also involved researching on corporate financial information online which limited the accuracy and sufficiency of the data since few companies in Kenya have taken the initiative to provide public access to their financial information through the internet.

While the researcher ensured that the participants answered and captured their responses in the questionnaires in their presence, some questions that the participants had to fill in the questionnaires facilitated self-report by the participants, which created room for errors that the participants could make when answering the questions, thus posing the risk of ambiguousness in ambiguous in open-ended questions. The issue of internal validity also limited the study since the independent variables (bond, money market, balanced and equity funds) are not the only determinants of the dependent variable (income from unit trust products) given that other types of unit trusts exist in some of the asset management companies. The situation was impossible to avoid since most companies had different secondary unit trust products.

5.6 Suggestions for Further Research

The limitations of the study create a basis on which further research on the impact of unit trust products have on the level of income, profitability and general success of asset management companies attributable to the unit trust products. Future research should cover more asset management companies so that the variations in incomes and profits could be accounted for more credibility and a wider representation of the whole target population may be accomplished. Moreover, future researchers, when using case study research as an instrument to collect primary data, should ensure that they obtain data from the companies directly or authorized parties such as the CMA. Request for such data should be made, formally so as to observe courtesy and protocol. Such efforts will ensure that the researcher accesses accurate information and at the same time, sufficient financial information on which to collect the findings, conduct a satisfactory analysis and draw adequate conclusions and recommendations based on the findings.

In a situation whereby a researcher has to utilize self-report, a complete guide should be given to the respondent, and the respondent is urged to provide credible information. A major gap that exists in the area is the limited number of unit trust products used despite the diversified unit products that exist. This gap has given rise to concerns of internal validity limitations in the research. Future researchers are, therefore, urged to include other unit trust products as well so as to ensure that there is a closer representation of the unit trust portfolio products. The researchers will also capture more information regarding the companies' efforts to introduce alternative methods to conduct research and, therefore, forming a link the companies' decisions on the number of unit trust products to invest on and the performance of the existing and potential unit trust products.

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APPENDIX 1: QUESTIONNAIRE

PART I: Demographic Data

Please fill in the following sections to provide your personal details. Please note that

filling in the section is purely voluntary, and you are free to decline to answer.

- What is your gender?

Male ☐   Female ☐

- What is your age bracket?

20 to 30 years ☐   40-50 years ☐

30 to 40 years ☐   50 and above ☐

PART II: Structured Questions

- Based on your experience as a portfolio manager, can you say that unit trust

products are proving as a benefit or a loss to your company? Please elaborate in

detail

- Do you think that the asset management and, specifically, unit trust industry has

received enough attention and potential for investors? Which of these four unit

trust products (equity, money market, balanced or bonds) do you think earn high

amounts of income to investors?

Does the effect of Inflation affect the returns from the funds equally or in different

magnitudes? (Tick where appropriate)

I.   The effect is insignificant

II.   The effect is equal

III. The effect is significantly varying

If (III) above, which funds revenues are affected the Most.

What is the age in years of the following Funds in your portfolio?

Tick as Appropriate.

FUND	1	2	3	4	5	6	7	8	9	10	>10	Not Sure
Money Market												
Equity Fund												
Balanced Fund												
Bond Fund												

APPENDIX 2: APPROVED UNIT TRUST COMPANIES IN KENYA

1. African Alliance Kenya Unit Trust

2. Old Mutual Unit Trust

3. British-American Unit Trust

4. Stanbic/ Stanlib Unit Trust

5. Commercial Bank of Africa Unit

6. Zimele Unit Trust Scheme

7. Suntra Unit Trust Scheme

8. Madison Asset Unit Trust Funds

9. Standard Investment Trust Funds

10. CIC Unit Trust Scheme

11. ICEA Unit Trust Funds

12. Dyer and Blair Unit Trust Scheme

13. Amana Unit Trust Funds Scheme

14. CFC Unit Trust Fund

15. Diaspora Unit Trust Scheme

16. First Ethical Opportunities Fund

17. Sanlam Unit Trust Scheme

18. Apollo Unit Trust Scheme

19. Genghis Unit Trust Scheme

20. UAP Investments Collective Investment Scheme

21. Equity Investment Bank Unit Trust Scheme